

June 16, 2010

To: Washington State Transportation Commission

From: Paula Hammond, Secretary of Transportation.  
David Moseley, Assistant Secretary, Ferries

Issue: Summary of Presentation to WSTC

### **Purpose and Goal**

At your June 23, 2010 meeting, we will provide you with a history and update on the reforms and ongoing improvements implemented at the WSDOT Ferries Division since 2007. We want to provide you with sufficient assurance of our past improvements, current actions, and future plans so that you will proceed to move forward with the 2.5% tariff proposal that has been scheduled for months to meet significant and well-known revenue shortfalls.

### **History of Reforms**

The ferry system has had many challenges for several years. The current operations are financially-unsustainable, vessels are aging, priorities are misguided, and relations with the legislature and communities had been strained. We would like to review the progress we have made to advance our reform efforts and how we plan to address continuing issues:

#### **2007**

- Appointed by Governor Gregoire, Paula Hammond begins as Secretary of Transportation.
- Removed four Steel Electric ferries from service because of safety problems with their hulls.
- Completed Phase 1 of legislative ferries finance studies exploring all areas of the ferry system's financial status (Cedar River Group Studies).
- Started search for new ferries division leadership.
- Continued work on a revised Ferries Long Range Plan.
- Completed work on State Auditor's Office Performance Audit which made cost-saving recommendations, including the consolidation of ferries division support

functions into WSDOT headquarters management structure. The audit also declared the need for legislative investment in a labor distribution system to manage labor costs.

## **2008**

- Continued Legislative ferries finance studies on management and support costs, capital program staffing, vessel preservation and replacement, and long-term financing.
- Continued Long Range planning process.
- Selected new ferries leader who could lead the system in a better direction.

## **COST SAVINGS**

- Reduced the size and cost of ferries headquarters staff by 35 FTES (12% and \$2.2M in FY 2007-2009)) and saved \$2.2 million.
- Reduced consulting costs by almost \$15 million (80%).
- Reduced other line item costs (\$20 M).
- Consolidated ferry support services into WSDOT headquarters to achieve efficiencies in IT, Payroll, and Return-to-Work/Risk Management. Consolidation of Human Resources will happen this summer.
- Recalibrated the terminal life-cycle cost model (\$106M over 16 years).

## **FERRY CONSTRUCTION**

- Refined the purchased design of a new 64-car ferry to replace the Steel Electrics.
- Managed two separate Requests for Proposal for 64-car ferry procurement.
- Completed bidding process on 64-car ferry.
- Reviewed construction management process for the Kwa-di Tabil class vessels to address legislative and industry concerns of over-staffing by ferry designers and construction managers.
- Established a formal partnership with the selected shipyards and improved construction process.

#### TRANSPARENCY AND ACCOUNTABILITY

- Met with the Legislature and ferry-served communities regularly to ensure frequent and transparent communications.

#### OTHER IMPROVEMENTS

- Reorganized the Ferries Division to manage financial/administrative and operations/construction more effectively.
- Celebrated the first “clean” annual SAO fiscal audit for the ferries division in ten years.
- Reduced fuel consumption by 2.1 million gallons to date.
- Developed and implemented an aggressive hull inspection program.
- Developed WSDOT budget controls to ensure the ferries division stays on-budget.

#### **2009**

- Completed the Long Range Plan and presented it to legislators who provided clear direction for both the operating and capital future of the ferry system. The Plan effectively refocuses the capital program to vessel replacement rather than terminal expansion.
- Developed flexible crew work rules with our unions, in response to the U.S. Coast Guard.
- Started construction of the first 64-car ferry.
- Completed legislative pre-design report for vehicle reservation system which manages demand and avoids \$280M in terminal investments.
- Began WINDS dispatch system planning to dispatch crews more efficiently.
- Completed an employee injury reduction plan and started to promptly investigate injuries.
- Invested in vessel equipment to reduce fuel consumption.
- Reduced the use of temporary employees for (\$222,000 per year).

#### **2010**

- Moving forward with Phase I of the vehicle reservation system endorsed by the Legislature.

- Deploying the new WINDS vessel worker dispatch system next month (already in place at terminals) to avoid unnecessary overtime and comply with collective bargaining requirements.
- Interviewing for Deputy Chief of Ferries Construction and Operations.
- Resolved labor grievances and integrated ferries payroll into the WSDOT centralized payroll structure. WSDOT Payroll has now created a quarterly “red flag” report for all ferry employees making more than their base pay.
- Improving customer service by better use of social media to communicate with our customers and better promotion of community events to encourage more ridership.

Recent media attention has also resulted in additional reforms and cost-saving measures being implemented or examined.

- Eliminating travel time and mileage for special project personnel (\$120,000 per fiscal year).
- Converting long-term special project positions to regular positions.
- Eliminating overtime and vacation overlap pay (\$11,500 in expenditures per fiscal year).
- Terminating the lease on one Friday Harbor employee housing unit (\$24,000 per fiscal year).
- Investigating operational alternatives on the San Juan interisland vessel so that relief of the engine room crew occurs in Anacortes rather than Friday Harbor.
- Completing investigation on one Eagle Harbor employee for possible abuse of sick leave.
- Improving field supervision of Eagle Harbor employees who travel throughout the ferry system.
- Asking our employees and customers to call or email us with any concerns about waste.

The 2010 legislative session provided several tools to help us continue to control costs.

These include:

- Requiring an arbitrator to consider the Department's ability to pay for arbitration awards, eliminating "baseball" arbitration, and requiring OFM to certify financial feasibility.
- Convening, at Governor Gregoire's request, an expert review panel led by the Passenger Vessel Association. A report from this panel is expected in August.
- Conducting, at Governor Gregoire's request, a State Auditor review of timekeeping and payroll systems.
- Ordering an OFM review of Ferries Division bargaining agreement provisions compared to other state government unions in a number of areas.

As noted previously, the Governor has also directed our labor negotiating teams to bring ferry bargaining agreements more into line with the rest of state government. Those negotiations have begun and will continue through July. If an arbitrator's decision is needed to resolve any disagreements, it must be issued in September for the Governor's budget process.

### **Financial Challenges:**

Current operating and capital funding sources are not financially sustainable. The 16-year financial plan calls for 2.5% fare increases each year, and results in operating revenues of \$3.4 billion. At this level of fares, fare box recovery averages only 75%. By the end of the 16-year plan, the difference between operating revenues and operating expenses is \$916 million and planned subsidies from the motor vehicle account are \$660M, resulting in a shortfall of \$256M.

Delay of the planned 2.5% fare increase planned for October 1, 2010 will result in a shortfall, depending on the length of delay. The shortfall ranges from \$648,000 for a delay of 3 months, \$1 million for a delay of 6 months, and \$2.5 million for a delay of one year. To make up for the shortfall, fares would have to be increased beyond the 2.5%.

The financial plan does not yet include some cost increases on the horizon that are unavoidable. These include increased fuel costs, higher lease costs, insurance, stormwater management compliance, and a potential MEC arbitration decision on watch turnover that will come this summer.

The fuel increase alone is estimated at \$13 million. In this context, savings we can achieve from recent management actions to control costs are relatively small. Travel

time and mileage reductions are estimated to save \$120,000 per year, the reduced housing at Friday Harbor will save \$24,000 per year, and elimination of overlap pay will potentially save \$11,500.

We are strengthening controls of overtime, continuing to work on fuel conservation, and waiting for the recommendations of the expert review panel on other cost savings. We have been reducing our spending and will continue to work on making the ferry system as efficient as possible. These efforts and recommendations will be finalized in August and September. We look forward to answering your questions at the June 23 presentation.

Please call us in advance if you have particular questions that you would like us to address.